State of North Carolina

Office of The State Auditor

Beth A. Wood, CPA

North Carolina State Ports Authority

Wilmington, North Carolina

Financial Statement Audit Report

For the Year Ended June 30, 2020

A Component Unit of the State of North Carolina

NCOSA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
Board of Directors, North Carolina State Ports Authority

We have completed a financial statement audit of the North Carolina State Ports Authority for the year ended June 30, 2020, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

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State Auditor

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Chapter 147, Article 5A of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
North Carolina State Ports Authority
Wilmington, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the North Carolina State Ports Authority (Authority), a component unit of the State of North Carolina, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina State Ports Authority, as of June 30, 2020, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2020 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

October 8, 2020

Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis

The annual financial statements of the North Carolina State Ports Authority (Authority) present the results of the Authority's financial activities for the fiscal year ended June 30, 2020. Management's Discussion and Analysis (MD&A) should be read in conjunction with the financial statements and provides a general overview of the Authority's financial activity during the fiscal year. The financial statements include, in addition to this MD&A, a Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, Statement of Cash Flows, and accompanying Notes to the Financial Statements. Management is responsible for the preparation of the MD&A and the accompanying basic financial statements.

The MD&A is intended to aid the reader in interpreting the Authority's relative financial position as of the above referenced date as well as gauging performance from one period to the next. Condensed key financial and nonfinancial information will be highlighted for the reader followed by a discussion of the Authority's current capital expansion program and economic outlook.

Required Supplementary Information (RSI) follows the basic financial statements and Notes to the Financial Statements. The RSI is mandated by the Governmental Accounting Standards Board (GASB) and includes information related to the Authority's participation in the Teachers' and State Employees' Retirement System (TSERS) and Other Postemployment Benefits (OPEB) plans.

About the Authority

The North Carolina State Ports Authority was created by act of the North Carolina General Assembly (§136-260) in 1945 as a political subdivision of the State of North Carolina for the purpose of engaging in promoting, developing, constructing, equipping, maintaining and operating the harbors and seaports within the State, or within the jurisdiction of the State (§136-261). As a political subdivision of the State, the Authority has no stock or equity shareholders but rather is governed by an 11-member Board of Directors appointed by the Governor, Speaker of the House, and President Pro Tempore of the Senate of North Carolina. Specific Authority operations include the deep-water ports of Morehead City and Wilmington, and the inland terminal facility located in Charlotte. These facilities handle both import and export containerized, break bulk, and bulk cargos.

Financial Highlights and Analysis

The Governmental Accounting Standards Board (GASB), established as an independent nonprofit organization in 1984, is charged with establishing and maintaining accounting policy, procedure, and disclosure standards as they pertain to state and local governments. These standards are most commonly referred to as generally accepted accounting principles (GAAP). Governmental GAAP accounting requires the application of the GASB Statement No. 34 reporting model whose intent is to make financial statements more useful to and easier to understand by oversight bodies, investors, creditors, and citizens. This improvement in utility value is accomplished principally through the introduction of the MD&A and a reformatting and consolidation of the basic financial statements for the main governmental reporting fund types, general government and proprietary units. The Authority is classified as a discretely presented component unit and is reported as a nonmajor component unit in the State's *Comprehensive Annual Financial Report*.

The Authority continued to operate on a normal schedule despite the coronavirus pandemic, but experienced some blank sailings despite increased revenues. However, the Authority's economic condition remains strong as net position increased $47.7 million from the previous year.

The accompanying basic financial statements have been prepared on an accrual basis of accounting, meaning that revenues are recognized when earned and expenses when incurred. Please refer to Note 1 in the Notes to the Financial Statements for additional details relating to accounting policies. Taken as a whole, the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows are one measure of an organization's overall financial health and value. Individually, the Statement of Net Position is a static view of financial value while the other two depict the movement of key elements from one period to the next, with a specific focus on the Authority's net position and cash and cash equivalents.

The following table provides a summarized Statement of Net Position as of June 30, 2020 with comparative figures for the prior period:

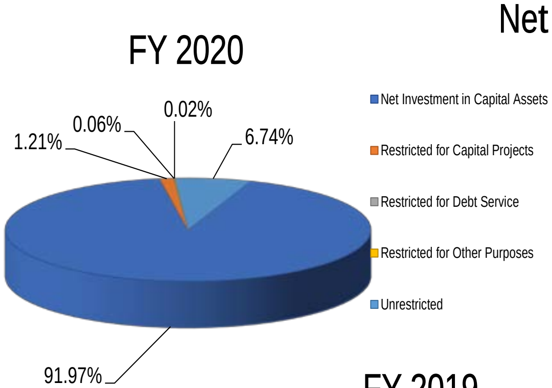
Condensed Statement of Net Position

(in thousands)	June 30, 2020	June 30, 2019	Change	% Change
Current Assets	$ 21,396	$ 34,459	$ (13,063)	-37.91%
Capital Assets, Net	464,086	399,867	64,219	16.06%
Other Noncurrent Assets	53,541	69,928	(16,387)	-23.43%
Total Assets	539,023	504,254	34,769	6.90%
Total Deferred Outflows of Resources	8,411	8,236	175	2.12%
Other Current Liabilities	9,680	14,733	(5,053)	-34.30%
Long-Term Liabilities, Net	139,201	145,098	(5,897)	-4.06%
Total Liabilities	148,881	159,831	(10,950)	-6.85%
Total Deferred Inflows of Resources	7,569	9,423	(1,854)	-19.68%
Total Net Position	$ 390,984	$ 343,236	$ 47,748	13.91%

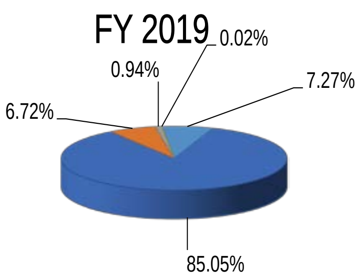
The change in current assets is primarily due to a decrease in short-term investments. This decrease is the result of increased cash spending in relation to the Authority's capital expansion programs. The change in capital assets, representing the single largest dollar value change in assets, is a result of capital expansion master plan spending for the updated container operations in the Port of Wilmington to include the completion of the Berth 7 Upgrade, Container Reefer Yard Expansion, Phase 2 of the Turning Basin Expansion, acceptance of the third of three new neo-Panamax container cranes as well as a new crane delivered for the Port of Morehead City, all offset by continued depreciation charges. Other Noncurrent Assets decreased primarily in the cash and investments held by the Authority as spending in the capital expansion plan increased. The decrease in current liabilities represents a decrease in payables at year end due to timing differences of purchases of certain supplies, materials, and services as compared to the prior year and a resulting decrease in large construction contract accruals given that a number of the significant projects were completed prior to June 30. The reduction in long-term liabilities represents the regularly scheduled debt service payments on the outstanding capital lease and bonds, offset by an increase in the net pension and OPEB liabilities. The changes in deferred outflows of resources, deferred inflows of resources, net pension liability, and net OPEB liability are due to valuation changes as determined by the plans' actuaries. Refer to Notes 12 and 13 for additional information regarding the Authority's participation in the TSERS and OPEB plans, respectively.

The Authority's net position is divided into five categories. The first, net investment in capital assets, represents the Authority's equity position with regards to property, facilities, and equipment. The second category is restricted by external funding sources to expenditure for capital projects. The third category is restricted for debt service payments as required by debt agreements. The fourth category is restricted for use by other third parties. The final category is that of unrestricted which is available for any lawful purpose of the Authority. The following exhibit analyzes the Authority's net position category mix for the periods ended June 30, 2020 and 2019, respectively. Significant changes, as noted above, are the result of increases to capital assets as the Authority invests in its capital expansion program (net investment in capital assets) and increases in investments due to cash flows from operations (unrestricted).

Net Position



(in thousands)		2020
Net Investment in Capital Assets	$	359,580
Restricted for Capital Projects		4,744
Restricted for Debt Service		244
Restricted for Other Purposes		75
Unrestricted		26,341
Total Net Position	$	390,984



		2019
Net Investment in Capital Assets	$	291,940
Restricted for Capital Projects		23,049
Restricted for Debt Service		3,220
Restricted for Other Purposes		75
Unrestricted		24,952
Total Net Position	$	343,236

The Statement of Revenues, Expenses, and Changes in Net Position reflects an overall increase in net position for the current fiscal year ended June 30, 2020 of $47.7 million. This increase is principally a product of the recognition of $50.5 million in state capital appropriations, as well as increased operating revenues, offset by payments to Duke Energy Progress for line raising, and repair expenses related to Hurricanes Florence and Dorian. The following table identifies variances between major financial categories for the fiscal years ended June 30, 2020 and 2019, respectively.

Condensed Statement of Revenues, Expenses, and Changes in Net Position

(in thousands)	June 30, 2020	June 30, 2019	Change	% Change
Operating Revenues, Net	$ 58,349	$ 50,329	$ 8,020	15.94%
Operating Expenses	61,834	48,517	13,317	27.45%
Operating Income (Loss)	(3,485)	1,812	(5,297)	-292.33%
Nonoperating Revenues (Expenses):				
State Aid - Coronavirus Relief Fund	21		21	100.00%
Investment Income, Net	1,024	1,575	(551)	-34.98%
Interest and Fees on Debt	(3,480)	(4,097)	(617)	-15.06%
Insurance (Repair Costs) Recoveries	(851)	5,008	(5,859)	116.99%
Loss on Disposal of Capital Assets		(43)	43	100.00%
Other Nonoperating Revenues (Expenses)	(154)	45	(199)	-442.22%
Net Nonoperating Revenues (Expenses)	(3,440)	2,488	(5,928)	238.26%
Other Revenues:				
State Capital Appropriations	50,500	45,000	5,500	12.22%
Capital Contributions	4,173	2,844	1,329	46.73%
Total Revenues	114,067	104,801	9,266	8.84%
Total Expenses	(66,319)	(52,657)	13,662	25.95%
Increase in Net Position	47,748	52,144	(4,396)	-8.43%
Net Position, Beginning of Period	343,236	291,092		
Net Position, End of Period	$ 390,984	$ 343,236		

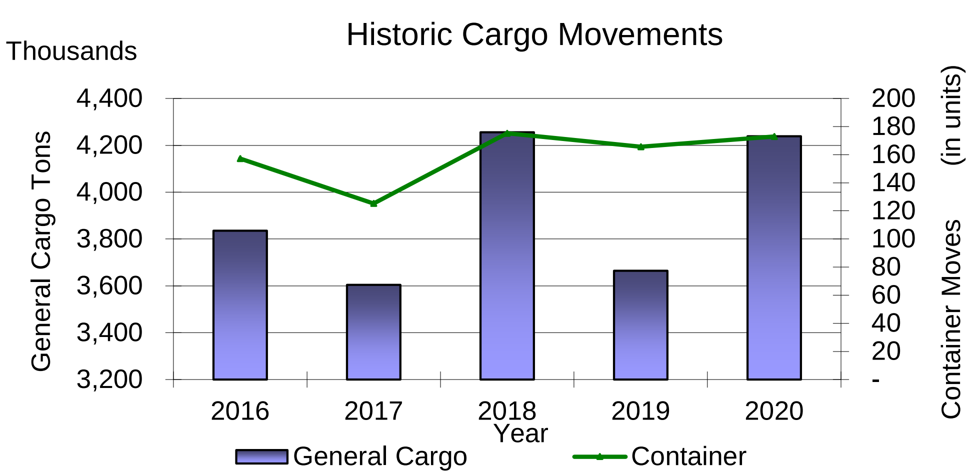
As reflected in the preceding table, the Authority posted an operating loss of $3.5 million versus income of $1.8 million in the prior year. The Authority posted record revenues for fiscal year 2020. The 15.94% increase in operating revenues was due to additional revenues generated from operating agreements for contractual billings for increased tonnage handled at both terminals, as well as increases in billing rates for certain contracts and commodities. Services expenses were up significantly during FY2020 primarily due to the $7.2 million payment to Duke Energy Progress (DEP) for raising the power lines that cross the Cape Fear River, while the partial offset of $5.5 million in appropriations from the State is reflected as capital appropriations. Operating expenses also include the expenses associated with the Queen City Express intermodal service, while the partially offsetting grant reimbursements are classified as capital contributions. Investment income decreased during the fiscal year due to the low interest rate market as well as decreases in the total amount of invested funds. Interest and fees on debt decreased due to the Authority's refinancing of outstanding higher rate issues during the fiscal year. Nonoperating revenues decreased from the prior year due to FY2019 recognition of insurance recoveries in advance of total spending for Hurricane Florence that affected Port Operations during September 2018. Total property damages and business interruption income for both terminals was in excess of $13 million, that was recoverable through insurance or FEMA, with the exception of one asset at the Port of Wilmington that sustained a material amount of damage and the Authority elected to replace as opposed to repair the damaged section and absorbed the difference in uncovered costs. During September 2019, the Authority suffered the effects of Hurricane Dorian. All repair expenses related to the hurricane were recorded in FY2020, however the reimbursement from NC Department of Insurance was not received or recorded until FY2021. In August 2020, the Authority was also affected by Hurricane Isaias and suffered some minimal property damage that is expected to be reimbursed net the deductible through insurance in FY2021. The

Authority received $45 million in both fiscal year 2020 and 2019 for funding of the Authority's capital expansion program. As mentioned earlier, the Authority also received the first of two installments of $5.5 million for reimbursement to Duke Energy Progress for the power line raising project in fiscal year 2020. Capital contributions also included funding for paving projects as well as security improvements throughout the terminals. The following table shows the major sources of both operating and other revenues in detail.

Revenues by Major Source

(in thousands)	June 30, 2020	June 30, 2019	Change	% Change
Operating Revenues:				
Sales and Services, Net	$ 54,293	$ 46,014	$ 8,279	17.99%
Rental and Lease Earnings	4,056	4,315	(259)	-6.00%
Total Operating Revenues	58,349	50,329	8,020	15.94%
Nonoperating Revenues:				
State Aid - Coronavirus Relief Fund	21		21	100.00%
Investment Income, Net	1,024	1,575	(551)	-34.98%
Insurance Recoveries/Repairs		5,008	(5,008)	-100.00%
Other		45	(45)	-100.00%
Total Nonoperating Revenues	1,045	6,628	(5,583)	-84.23%
Other Nonoperating Revenues:				
State Capital Appropriations	50,500	45,000	5,500	12.22%
Capital Contributions	4,173	2,844	1,329	46.73%
Total Other Nonoperating Revenues	54,673	47,844	6,829	14.27%
Total Revenues	$ 114,067	$ 104,801	$ 9,266	8.84%

The improved revenue as compared to the prior year reflects a continued margin of growth in containers, including intermodal services, general cargo and other nonoperating sources of revenue. The following graph and table outline the operating statistics compared to prior year and general trends. It is worth noting that operating revenues and cargo statistics were not adjusted for the adverse effect of Hurricane Florence in fiscal year 2019 or Hurricane Dorian in fiscal year 2020.

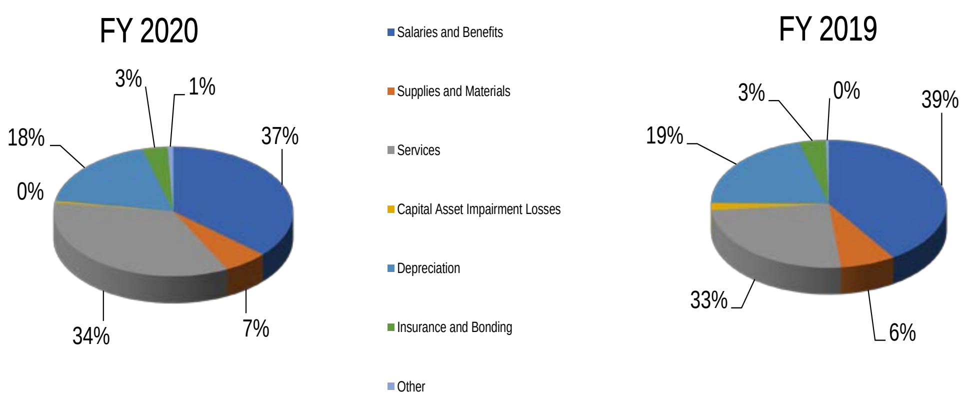


	June 30, 2020	June 30, 2019	Change	% Change
Container Movement	173,023	165,749	7,274	4.39%
General Cargo Movement (Short Tons)	4,238,644	3,664,417	574,227	15.67%
Vessel Calls	887	919	(32)	-3.48%
Rail Car Activity	33,900	29,089	4,811	16.54%

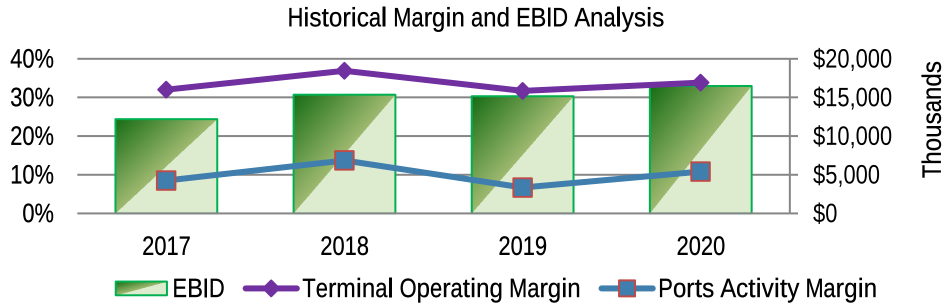
The Authority has continued to manage expenses and implement cost containment measures where possible. The increase in salaries and benefits is a result of the application of the pay-for-performance programs. The increase in services is a result of the previously mentioned contribution to DEP for power line raising and additional expenses associated with the Queen City Express guaranteed intermodal service. Capital asset impairments were the result of assets torn down or eliminated as part of the expansion efforts. Insurance expense increased as a result of expanded coverage in the Authority's portfolio. Depreciation expense continues to increase as the Authority finalizes larger projects in the capital expansion plan. The following table and graphs analyze operating expenses by major category as well as providing a relative mix year-over-year.

Operating Expenses by Major Category

(in thousands)	June 30, 2020	June 30, 2019	Change	% Change
Salaries and Benefits	$ 22,708	$ 19,795	$ 2,913	14.72%
Supplies and Materials	3,729	3,661	68	1.86%
Services	21,256	12,146	9,110	75.00%
Capital Asset Impairment Losses	259	901	(642)	100.00%
Insurance and Bonding	2,103	1,765	338	19.15%
Other	488	206	282	136.89%
Depreciation	11,291	10,043	1,248	12.43%
Total Operating Expenses	$ 61,834	$ 48,517	$ 13,317	27.45%



The following graph depicts the operating margins and earnings before interest and depreciation (EBID). The Authority budgeted for slightly declining margins due to anticipated drops in business related to the coronavirus pandemic.



The Authority's market share, market position, and long-term growth expectations for both container volume and general terminal activities are considered sustainable as they are driven by a number of factors including continued steady global economic growth, developments in the operating environment for US East Coast ports, and a rebound from negative market and natural forces that impacted fiscal years 2020 and 2019 that included Hurricanes Florence and Dorian and the economic uncertainty from the COVID-19 pandemic. US East Coast container volumes are expected to grow with carriers taking advantage of the economic benefits derived by deploying larger ships through the new Panama Canal and general increases in world trade in the East-West trade lane with Asia and Europe and the North-South trade lane with Latin America.

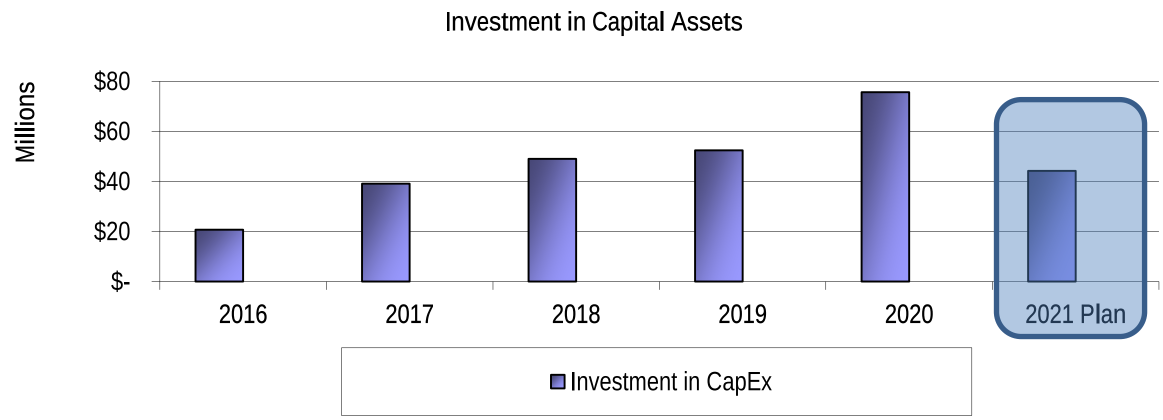
Capital Assets and Long-Term Debt

The Authority's current capital expansion program can be traced back to the Strategic Plan updated in 2019 as the Authority continued in a significant and comprehensive strategic planning effort which, among other outputs, produced a long-term market plan and corresponding capital infrastructure program. This program includes a plan to double the container business; expand business on the general terminals; execute an investment plan needed for terminal, road, rail and channel infrastructure; and to achieve financial sustainability and independently fund capital growth requirements. The strategic priorities are facility planning, container yard expansion, dredging and air clearance, refrigerated commodities in containers, rail, and technology.

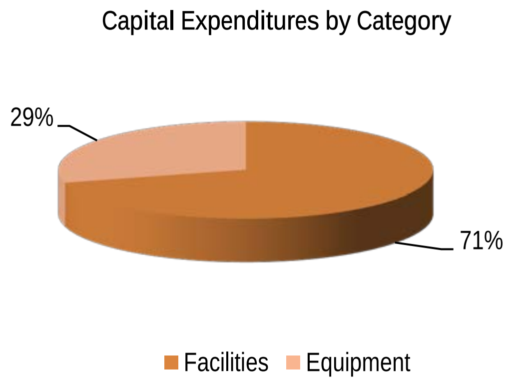
In fiscal year 2018, the Authority refinanced an outstanding capital lease obligation to eliminate a pending balloon payment and take advantage of a more favorable interest rate and terms. In fiscal year 2019, the Authority modified the terms of the outstanding Series 2013 and 2014 variable-rate bonds to eliminate the bank call options. In February 2020, the Authority refinanced the outstanding Series 2010AB bonds to secure a much more favorable interest rate. The resulting defeasance is described in Note 8 in the notes to the financials.

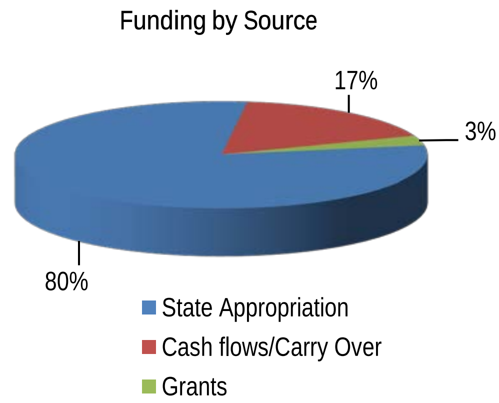
Since fiscal year 2016 when the State of North Carolina appropriated recurring funds for expansion investment, the Authority has assertively worked to rehabilitate or otherwise expand its facilities, investing approximately $240.1 million in equipment and infrastructure, with plans to invest an additional $44.2 million in fiscal year 2021. Highlights of these expenditures include the acquisition of new container cranes, investments in terminal and berth infrastructure, improvements in navigation, and new or upgraded facilities. As previously mentioned, during the current fiscal year the Authority received an allotment of $45 million in appropriations from the State of North Carolina to fund infrastructure improvements and expansion.

During the fiscal year, $109.2 million was transferred out of construction in progress and computer software in development to depreciable capital assets, related mostly to enhancing the Authority's aging infrastructure system and updating information technology systems. Refer to Note 5 for additional information regarding the Authority's capital assets. The following graph summarizes recent and planned capital investment.



Capital investment for the upcoming fiscal year is anticipated to decrease as major projects were completed in the year. Projects totaling approximately $76 million related to berth structure improvement and cranes/equipment, plus an additional $7 million toward the raising of the Duke Energy Progress power lines were completed during FY2020. The FY2021 capital investment plan includes the construction of the new Container Gate and Interchange, continued progress with the Wilmington Harbor Navigation Improvements Project as well as other system and infrastructure improvements. Funding for these expenditures will be accomplished, as in recent years, by a combination of state and federal grants, reserves, and internal cash flows. In addition, the State of North Carolina budgeted the annual continuation of $45 million in capital appropriations to the Authority for fiscal year 2021, as well as the second payment of $5.5 million toward reimbursement for the raising of the Duke power lines improving access to the Wilmington terminal. Further details on the capital improvement program can be found in the Authority's 2021 Capital Budget document. The following graphs provide a breakdown of planned fiscal year 2021 expenditures by category as well as anticipated funding by sources.





Economic Outlook

As a result of the Authority's investments in container operations, the start of an intermodal service to/from Charlotte, and intense marketing efforts, the Authority was able to attract a number of new container services to the Port of Wilmington that started at the end of fiscal year 2017 and have upgraded in subsequent years. The expanded number, vessel size and scope of container services has the potential to continue to increase container volume as the capacity on the services are allocated to Wilmington. The completion of the bulk wood pellet facility in Wilmington in fiscal year 2017 will continue to be a key driver of the increase in handled bulk cargo tonnage through the Wilmington location.

Despite Hurricane Florence and Hurricane Dorian, the Authority posted increases in cargo volumes in fiscal year 2020. In March 2020, the World Health Organization declared a pandemic due to the spread of the coronavirus disease (COVID-19.) The coronavirus is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact on the Authority's operational and financial performance will depend on many factors and developments outside of the Authority's control. Given the unclear future economic projections, the Authority budgeted for overall declines in volume for FY2021 in anticipation of such negative impacts and economic uncertainty.

The Authority managed the FY2021 budget to have adequate cash flows from operations to meet all current obligations as well as debt service requirements. The Authority's debt service coverage for budgeted fiscal year 2021 is 2.12 to 1.00, which is well within the stipulated debt covenant requirements.

Contacting the Authority's Financial Management

If you have questions about these financial statements or need additional financial information, contact the Authority's Finance Office, 2202 Burnett Blvd., Wilmington, NC 28412.

FINANCIAL STATEMENTS

North Carolina State Ports Authority
Statement of Net Position
June 30, 2020

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	4,038,773
Restricted Cash and Cash Equivalents		228,237
Short-Term Investments		6,641,000
Receivables, Net (Note 4)		7,766,227
Inventories		675,053
Prepaid Items		2,046,426
Total Current Assets		21,395,716
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		90,894
Restricted Due from Primary Government		206,091
Investments		47,568,660
Restricted Investments		4,571,000
Unamortized Charges		1,074,335
Net Other Postemployment Benefits Asset		29,821
Capital Assets - Nondepreciable (Note 5)		80,765,991
Capital Assets - Depreciable, Net (Note 5)		383,320,248
Total Noncurrent Assets		517,627,040
Total Assets		539,022,756
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Loss on Refunding		467,762
Deferred Outflows Related to Pensions		3,961,827
Deferred Outflows Related to Other Postemployment Benefits (Note 13)		3,981,611
Total Deferred Outflows of Resources		8,411,200
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		7,572,992
Due to Primary Government		953,636
Unearned Revenue		410,460
Interest Payable		742,662
Long-Term Liabilities - Current Portion (Note 8)		6,811,117
Total Current Liabilities		16,490,867
Noncurrent Liabilities:		
Long-Term Liabilities, Net (Note 8)		132,390,419
Total Liabilities		148,881,286

North Carolina State Ports Authority
Statement of Net Position — *Exhibit A-1*
June 30, 2020

DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Bonds		156,801
Deferred Inflows Related to Pensions		32,815
Deferred Inflows Related to Other Postemployment Benefits (Note 13)		7,379,343
Total Deferred Inflows of Resources		7,568,959
NET POSITION		
Net Investment in Capital Assets		359,580,051
Expendable		
Other		75,000
Capital Projects		4,743,321
Debt Service		244,130
Unrestricted		26,341,209
Total Net Position	$	390,983,711

The accompanying notes to the financial statements are an integral part of this statement.

North Carolina State Ports Authority
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2020

Exhibit A-2

OPERATING REVENUES		
Sales and Services, (Net of $497,215 of Allowance for Doubtful Accounts)	$	54,293,568
Rental and Lease Revenues		4,055,727
Total Operating Revenues		58,349,295
OPERATING EXPENSES		
Salaries and Benefits		22,707,858
Supplies and Materials		3,728,856
Services		21,256,101
Capital Asset Impairment Losses		258,984
Insurance and Bonding		2,102,949
Other Operating Expenses		488,495
Depreciation		11,290,612
Total Operating Expenses		61,833,855
Operating Loss		(3,484,560)
NONOPERATING REVENUES (EXPENSES)		
State Aid - Coronavirus Relief Fund		20,910
Investment Income (Net of Investment Expense of $66,346)		1,024,141
Interest and Fees on Debt		(3,480,336)
Insurance Repairs, Net of Recoveries		(850,792)
Other Nonoperating Expenses		(154,451)
Net Nonoperating Revenues		(3,440,528)
Loss Before Other Revenues		(6,925,088)
Capital Appropriations		50,500,000
Capital Contributions		4,172,509
Total Other Revenues		54,672,509
Increase in Net Position		47,747,421
NET POSITION		
Net Position - July 1, 2019		343,236,290
Net Position - June 30, 2020	$	390,983,711

The accompanying notes to the financial statements are an integral part of this statement.

North Carolina State Ports Authority
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2020 — *Page 1 of 2*

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	58,942,335
Payments to Employees and Fringe Benefits		(21,735,914)
Payments to Vendors and Suppliers		(31,506,786)
Net Cash Provided by Operating Activities		5,699,635
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid - Coronavirus Relief Fund		20,910
Principal Paid on Noncapital Debt		(190,486)
Interest and Fees Paid on Noncapital Debt		(55,714)
Net Cash Used by Noncapital Financing Activities		(225,290)
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES		
Capital Appropriations		50,500,000
Capital Contributions		3,769,349
Proceeds from Sale of Capital Assets		1,575,000
Insurance Repair Payments		(850,792)
Acquisition and Construction of Capital Assets		(78,436,807)
Principal Paid on Capital Debt and Leases		(8,438,621)
Interest and Fees Paid on Capital Debt and Leases		(4,037,666)
Net Cash Used by Capital Financing and Related Financing Activities		(35,919,537)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		53,139,346
Investment Income		880,816
Purchase of Investments and Related Fees		(32,273,074)
Net Cash Provided by Investing Activities		21,747,088
Net Decrease in Cash and Cash Equivalents		(8,698,104)
Cash and Cash Equivalents - July 1, 2019		13,056,008
Cash and Cash Equivalents - June 30, 2020	$	4,357,904

North Carolina State Ports Authority
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2020

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$	(3,484,560)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		11,290,612
Capital Asset Impairment Losses		258,984
Changes in Assets and Deferred Outflows of Resources:		
Receivables, Net		542,339
Inventories		73,359
Prepaid Assets		(311,566)
Net Other Postemployment Benefits Asset		(8,831)
Deferred Outflows Related to Pensions		955,693
Deferred Outflows Related to Other Postemployment Benefits		(1,295,562)
Changes in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Accrued Liabilities		(3,495,233)
Due to Primary Government		236,811
Unearned Revenue		50,701
Net Pension Liability		325,164
Net Other Postemployment Benefits Liability		2,461,777
Compensated Absences		146,195
Workers' Compensation Liability		(35,521)
Deferred Inflows Related to Pensions		(85,883)
Deferred Inflows Related to Other Postemployment Benefits		(1,924,844)
Net Cash Used by Operating Activities	$	5,699,635

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Assets Acquired through the Assumption of a Liability	$	103,614
Assets Acquired through a Gift		380,400
Change in Fair Value of Investments		125,914
Loss on Disposal of Capital Assets		(444,621)
Amortization of Bond Premiums/Discounts		(164,808)
Funds Escrowed to Defease Debt		32,425,000

The accompanying notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The North Carolina State Ports Authority (Authority) is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds belonging to the Authority. Related foundations for which the Authority is not financially accountable or for which the nature of their relationship is not considered significant to the Authority are not part of the accompanying financial statements.

B. Basis of Presentation - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB.

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, the full scope of the Authority's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

C. Basis of Accounting - The financial statements of the Authority have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Nonexchange transactions, in which the Authority receives (or gives) value without directly giving (or receiving) equal value in exchange, include state capital appropriations, certain grants, and investment income. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

D. Cash and Cash Equivalents - This classification includes cash on deposit with private bank accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

E. **Investments** - To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net change in the value of investments is recognized as a component of investment income.

F. **Receivables** - Receivables consist of charges to customers for services, contract guarantees, and use of facilities. Receivables also include amounts due from the federal government in connection with reimbursement of allowable expenditures made pursuant to contracts, as well as interest income receivable. Receivables are recorded net of estimated uncollectible amounts.

G. **Inventories** - Inventories, consisting of expendable supplies, are valued at the lower of cost or market on a moving weighted average cost basis, which approximately cost on a first-in, first-out (FIFO) basis.

H. **Prepaid Items** - Prepaid items consist of prepayments for insurance, subscriptions, and maintenance contracts.

I. **Unamortized Charges** - Unamortized charges are comprised of prepayments of maintenance contracts for dredging and piping relocation that will be expensed in future periods. These charges are expensed over a period of two to three years or length of contract using the straight-line method.

J. **Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs.

The Authority capitalizes assets that have a value or cost of $5,000 or greater at the date of acquisition and an estimated useful life of more than one year. The Authority capitalizes intangible assets and internally generated software under these same provisions.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets in the following manner:

Asset Class	Estimated Useful Life
Buildings	10-75 years
Machinery and Equipment	2-40 years
General Infrastructure	10-60 years
Computer Software	2-5 years

K. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources legally segregated for the payment of principal and interest as required by debt covenants, and resources restricted for use by other external parties.

L. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of long-term debt and other long-term liabilities that will not be paid within the next fiscal year. Debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. Long-term debt includes: revenue bonds payable, capital leases payable, and notes from direct borrowings. Other long-term liabilities include: compensated absences, net pension liability, net other postemployment benefits (OPEB) liability, and workers' compensation.

Revenue bonds payable are reported net of unamortized premiums. The Authority amortizes bond premiums over the life of the bonds using the straight-line method that approximates the effective interest method. Deferred losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method, and are aggregated as deferred outflows of resources on the Statement of Net Position. Issuance costs are expensed in the reporting period in which they are incurred.

The net pension liability represents the Authority's proportionate share of the collective net pension liability reported in the State of North Carolina's 2019 *Comprehensive Annual Financial Report.* This liability represents the Authority's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 12 for further information regarding the Authority's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the Authority's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2019 *Comprehensive Annual Financial Report.* This liability represents the Authority's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund. See Note 13 for further information regarding the Authority's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

M. **Compensated Absences** - The Authority's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

There is no liability for unpaid accumulated sick leave because the Authority has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

N. **Deferred Outflows/Inflows of Resources** - Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then.

O. **Net Position** - The Authority's net position is classified as follows:

Net Investment in Capital Assets - This represents the Authority's total investment in capital assets, net of outstanding liabilities related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Restricted Net Position - **Expendable** - Expendable restricted net position includes resources for which the Authority is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Position - Unrestricted net position includes resources derived from sales and services, rental and lease earnings, sale of surplus property, and interest income. It also includes the net position of accrued employee benefits such as compensated absences, workers' compensation, pension plans, and other postemployment benefits.

Restricted and unrestricted resources are tracked separately. When both restricted and unrestricted funds are available for expenditure, the decision for funding is determined by management on a case-by-case basis. See Note 10 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

P. **Revenue and Expense Recognition** - The Authority classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as sales and services and rental and lease earnings. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and state capital appropriations that represent subsidies or gifts to the Authority, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits - Unless specifically exempt, the Authority is required by *North Carolina General Statute* 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer.

At June 30, 2020, the amount shown on the Statement of Net Position as cash and cash equivalents includes $37,908, which represents the Authority's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.3 years as of June 30, 2020. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at https://www.nctreasurer.com/ in the Audited Financial Statements section.

The carrying amount of the Authority's deposits not with the State Treasurer, was $4,319,996, and the bank balance was $5,278,480. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. As of June 30, 2020, the Authority's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	$ 4,512,587

B. Investments - The Authority invests its excess funds in accordance with *North Carolina General Statute* 159-30, as discussed below.

G.S. 159-30 authorizes the Authority to invest in the following: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; certificates of deposit and other deposit accounts of specified financial institutions; prime quality commercial paper; asset-backed securities with specified ratings, specified bills of exchange or time drafts, and corporate bonds/notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

In accordance with the bond resolutions, bond proceeds and debt service funds are invested in obligations that will by their terms mature on or before the date funds are expected to be required for expenditure or withdrawal.

Investments are subject to the following risks as defined by GASB Statement No. 40, *Deposit and Investment Risk Disclosures - An Amendment of GASB Statement No. 3.*

Interest Rate Risk: Interest rate risk is the risk the Authority may face should interest rate variances affect the value of investments. The Authority does not have a formal policy that addresses interest rate risk.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority does have a formal policy that addresses credit risk. The policy limits investments to obligations of the United States, or obligations backed by the full faith and credit by the U.S. government; government agencies; repurchase agreements with regard to securities guaranteed by the U.S. government; obligations with the state of North Carolina; time deposits of banks with a physical presence in North Carolina for the purpose of receiving commercial or retail deposits, not to exceed $250,000 per deposit (must be FDIC insured); prime quality commercial paper with a credit rating of no less than AAA by a nationally recognized rating agency; and corporate bonds and notes that bear a rating of no less than AAA by a nationally recognized rating agency.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority does not have a formal policy for custodial credit risk.

The following table presents investments by type and investments subject to interest rate risk at June 30, 2020.

	Amount	Investment Maturities (in Years) Less Than 1	1 to 5
Investment Type			
Debt Securities			
U.S. Treasuries	$ 19,018,930	$ 15,474,496	$ 3,544,434
U.S. Agencies	4,054,602	3,899,202	155,400
Money Market Mutual Funds	35,427,466	35,427,466	-
Domestic Corporate Bonds	279,662	151,006	128,656
Total Debt Securities	$ 58,780,660	$ 54,952,170	$ 3,828,490

At June 30, 2020, the Authority's investments had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa
U.S. Agencies	$ 4,054,602	$ 4,052,602
Money Market Mutual Funds	35,427,466	35,427,466
Domestic Corporate Bonds	279,662	279,662
Totals	$ 39,761,730	$ 39,759,730

Rating Agency: Moody's

At June 30, 2020, the Authority's investments were exposed to custodial credit risk as follows:

Investment Type	Held by Counterparty's Trust Dept or Agent not in Authority's Name
U.S. Treasuries	$ 19,018,930
U.S. Agencies	4,054,602
Domestic Corporate Bonds	279,662
Total	$ 23,353,194

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the Authority's investments are recorded at fair value as of June 30, 2020. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1	Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
Level 2	Investments with inputs - other than quoted prices included within Level 1 - that are observable for an asset, either directly or indirectly.
Level 3	Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.

The following table summarizes the Authority's investments, including deposits in the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2020:

		Fair Value Measurements Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Debt Securities				
U.S. Treasuries	$ 19,018,930	$ 19,018,930	$ -	$ -
U.S. Agencies	4,054,602	4,054,602	-	-
Money Market Mutual Funds	35,427,466	35,427,466	-	-
Domestic Corporate Bonds	279,662	279,662	-	-
Total Debt Securities	58,780,660	$ 58,780,660	$ -	$ -
Total Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	37,908			
Total Investments Measured at Fair Value	$ 58,818,568			

Debt Securities - Debt securities classified as Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Short-Term Investment Fund - Ownership interests of the STIF are determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB 72. The Authority's position in the pool is measured and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2020, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Receivables:			
Due from Customers	$ 8,323,758	$ 820,014	$ 7,503,744
Investment Earnings	129,561	-	129,561
Other	132,922	-	132,922
Total Receivables	$ 8,586,241	$ 820,014	$ 7,766,227

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2020, is presented as follows:

	Balance July 1, 2019	Increases	Decreases	Balance June 30, 2020
Capital Assets, Nondepreciable:				
Land and Permanent Easements	$ 58,560,446	$ 415,400	$ 949,725	$ 58,026,121
Construction in Progress	51,977,820	72,143,882	104,952,030	19,169,672
Computer Software in Development	3,485,041	4,359,677	4,274,520	3,570,198
Total Capital Assets, Nondepreciable	114,023,307	76,918,959	110,176,275	80,765,991
Capital Assets, Depreciable:				
Buildings	86,104,582	1,036,435	704,729	86,436,288
Machinery and Equipment	103,919,411	27,356,331	1,973,736	129,302,006
General Infrastructure	262,320,312	77,169,530	405,272	339,084,570
Computer Software	3,665,170	4,274,520	764,883	7,174,807
Total Capital Assets, Depreciable	456,009,475	109,836,816	3,848,620	561,997,671
Less Accumulated Depreciationfor:				
Buildings	33,981,567	1,534,904	188,686	35,327,785
Machinery and Equipment	39,949,025	4,119,022	1,688,991	42,379,056
General Infrastructure	92,913,255	5,260,164	136,164	98,037,255
Computer Software	3,321,688	376,522	764,883	2,933,327
Total Accumulated Depreciation	170,165,535	11,290,612	2,778,724	178,677,423
Total Capital Assets, Depreciable, Net	285,843,940	98,546,204	1,069,896	383,320,248
Capital Assets, Net	$ 399,867,247	$ 175,465,163	$ 111,246,171	$ 464,086,239

Operating expenses include capital asset impairment losses of $258,984 due to the tear down of certain assets as part of the current expansion efforts.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2020, were as follows:

	Amount
Accounts Payable	$ 6,274,800
Accrued Payroll	1,194,578
Contract Retainage	103,614
Total Accounts Payable and Accrued Liabilities	$ 7,572,992

NOTE 7 - SHORT-TERM DEBT - UNUSED LINES OF CREDIT

The Authority has a line of credit agreement with Truist Bank for financing of an amount up to $25,000,000. The line of credit was unused during the year ended June 30, 2020, and has no outstanding balance.

NOTE 8 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2020, is presented as follows:

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Current Portion
Long-Term Debt					
Revenue Bonds Payable	$ 54,375,000	$ 32,425,000	$ 37,310,000	$ 49,490,000	$ 2,295,000
Plus: Unamortized Premium	164,808	-	164,808	-	-
Total Revenue Bonds Payable	54,539,808	32,425,000	37,474,808	49,490,000	2,295,000
Notes from Direct Borrowings	594,621	-	190,486	404,135	198,105
Capital Leases Payable	57,808,323	-	3,553,621	54,254,702	3,634,350
Total Long-Term Debt	112,942,752	32,425,000	41,218,915	104,148,837	6,127,455
Other Long-Term Liabilities					
Compensated Absences	1,386,280	932,641	786,446	1,532,475	181,662
Net Pension Liability	7,979,805	325,164	-	8,304,969	-
Net Other Postemployment Benefits Liability	18,542,674	2,461,777	-	21,004,451	-
Workers' Compensation	4,246,325	-	35,521	4,210,804	502,000
Total Other Long-Term Liabilities	32,155,084	3,719,582	821,967	35,052,699	683,662
Total Long-Term Liabilities, Net	$ 145,097,836	$ 36,144,582	$ 42,040,882	$ 139,201,536	$ 6,811,117

Additional information regarding capital lease obligations is included in Note 9.
Additional information regarding the net pension liability is included in Note 12.
Additional information regarding the net other postemployment benefits liability is included in Note 13.
Additional information regarding worker's compensation is included in Note 14.

B. Revenue Bonds Payable - The Authority was indebted for revenue bonds payable for the purposes shown in the following table:

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2020
Construct Bulk Grain Facility	2001	.25%-15%	09/2022	$ 11,000,000	$ 885,000
Ports Facilities Senior Lien Revenue Refunding Bond	2013	Variable[1]	02/2036	10,000,000	9,370,000
Ports Facilities Subordinated Revenue Refunding Bond	2014	Variable[2]	02/2029	9,750,000	6,810,000
Ports Facilities Senior Lien Revenue Refunding Bond	2020A	2.69%	02/2040	21,755,000	21,755,000
Ports Facilities Senior Lien Revenue Refunding Bond	2020B	2.49%	02/2029	10,670,000	10,670,000
Total Revenue Bonds Payable (principal only)				$ 63,175,000	49,490,000
Total Revenue Bonds Payable, Net					$ 49,490,000

[1] Variable rate calculated monthly as .79% per annum + 74.2%(1-month LIBOR)
[2] Variable rate calculated monthly as .79% per annum + 72.2%(1-month LIBOR)

C. Notes from Direct Borrowings - The Authority was indebted for notes from direct borrowings for the purposes shown in the following table:

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2020
NCDOT Bascue Bridge	NCDOT	4%	06/2022	$ 1,730,517	$ 404,135

D. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 20, are as follows:

	Annual Requirements			
	Revenue Bonds Payable		Notes from Direct Placements	
Fiscal Year	Principal	Interest	Principal	Interest
2021	$ 2,295,000	$ 1,007,963	$ 198,105	$ 16,165
2022	2,340,000	965,100	206,030	8,241
2023	2,400,000	914,542	-	-
2024	2,175,000	862,961	-	-
2025	2,250,000	822,024	-	-
2026-2030	12,380,000	3,453,292	-	-
2031-2035	14,530,000	2,192,796	-	-
2036-2040	11,120,000	806,042	-	-
Total Requirements	$ 49,490,000	$ 11,024,720	$ 404,135	$ 24,406

Interest on the variable rate Series 2013 revenue bonds is calculated at 0.9375% at June 30, 2020.
Interest on the variable rate Series 2014 revenue bonds is calculated at 0.08750% at June 30, 2020.

E. **Terms of Debt Agreements** - The Authority's debt agreements are subject to the following collateral requirements and terms with finance-related consequences:

Revenue Bonds Payable - The Authority's revenue bonds payable are governed by a trust agreement with U.S. Bank National Association as trustee. This trust agreement requires that the Authority collect receipts in order that for each fiscal year the income available for debt service will not be less than 135% of the long-term debt service requirements for parity indebtedness for that year, and will not be less than 105% of the long-term debt service requirements for parity and subordinated indebtedness for that year.

Provisions related to events of defaults and remedies are also contained within the trust agreement. Significant to these provisions, an event of default occurs when: (1) the Authority fails to pay principal, interest, or premium on any bonds when due and payable, (2) the Authority fails to pay, appeal, or have discharged within 120 days any judgements in excess of $500,000, (3) the Authority becomes insolvent or the subject of insolvency or similar proceedings, (4) a court of competent jurisdiction assumes custody or control of the Authority and such custody is not terminated within 90 days, or (5) the Authority defaults in the due and punctual performance of any other of the covenants, conditions, agreements, and provisions of the agreements and such default continues for 30 days after receipt of a written notice without the Authority instituting action reasonably designed to cure such default. Upon the happening and continuance of any event of default, the trustee may, or if required by the owners of the bonds, must declare all unpaid principal and interest immediately due and payable.

The Authority is also required to annually file the following with the trustee: (1) capital improvements budget, (2) annual audit within 180 days of fiscal year end, (3) officer's certificate within 60 days of fiscal year end stating whether any violations or default occurred, and (4) an insurance report with 60 days of fiscal year end listing policies currently in force including names of such companies, expiration dates, the risks covered, and if a consultant was employed during such fiscal year.

The Authority's revenue bonds contain certain other terms and remedies as detailed below.

Series 2001 - The Authority entered into an agreement with a customer to construct a bulk materials facility through the issuance of special purpose bonds. Debt service obligations related to these bonds were split between the Authority and the customer. The Authority has met its obligation with respect to its portion of debt service and the remaining obligation is that of the customer only. The customer is responsible for remitting remaining principal and interest payments to the Authority which are used to fund the remaining debt service payments. The remaining liability is not secured by or payable from receipts of the Authority. In the event of a default by the customer due to bankruptcy, the remaining principal and interest payments would be the sole responsibility of the Authority. The Authority has secured the outstanding bonds through a standby letter of credit to service the debt through maturity.

Series 2013 - The Series 2013 bonds are secured by a senior lien upon and pledge of the net receipts of the Authority and are on parity with all other parity indebtedness. In addition to the provisions above, these bonds include the following additional requirements: (1) a provision for interest rate adjustment upon determination of taxability equal to 0.825% per-annum + 1-month LIBOR, (2) a provision for interest rate adjustment upon determination of non-bank qualified status equal to 1.096% per-annum + 79%(1-month LIBOR), (3) a provision for rate calculation should 1-month LIBOR not be ascertainable equal to the prime rate minus 2.5%, and (4) a provision for rate adjustment from and after an event of default until remedied or otherwise waived equal to the greater of the prime rate plus 2%, or 6%.

The Authority is also required to annually file a compliance certificate containing the following provisions: (1) debt service coverage ratio for all debt (parity, subordinate, and non-pledge) at least 105%, (2) funded debt to unrestricted net position must not exceed 60%, (3) days cash on hand of at least 90 days, and (4) a no default certification.

Series 2014 - The Series 2014 bonds are secured by a junior lien upon and pledge of the net receipts of the Authority. As additional security for these bonds the Authority executed and delivered a deed of trust on the site of the NC International Terminal project to secure the Authority's obligations. In addition to the provisions above, these bonds include the following additional requirements: (1) a provision for interest rate adjustment upon determination of taxability equal to 0.80% per-annum + 1-month LIBOR, (2) a provision for interest rate adjustment upon determination of non-bank qualified status equal to 1.062% per-annum + 79%(1-month LIBOR), (3) a provision for rate calculation should 1-month LIBOR not be ascertainable equal to the prime rate minus 2.5%, and (4) a provision for rate adjustment from and after an event of default until remedied or otherwise waived equal to the greater of the prime rate plus 2%, or 6%. The required annual filing from the Series 2013 bonds apply to Series 2014 as well.

Series 2020AB - The Series 2020AB bonds are secured by a senior lien on the net receipts of the Authority, defined as all receipts after the payment of current expenses. There are no pre-payment penalties associated with the bond issue.

Notes from Direct Borrowings - The agreement contains a provision that invoices not paid within 60 days can be charged a late payment penalty and interest shall be charged on any unpaid balance in accordance with G.S. 147-86.23.

Capital Leases Payable - The Authority's capital lease agreement contains provisions related to events of defaults and remedies. Significant to these provisions, an event of default occurs when: (1) the Authority fails to pay, within 10 days following the due date thereof, any rental payment or other amount required, (2) the Authority fails to perform or abide by any condition, agreement, or covenant for a period of 30 days after written notice unless extension is granted, (3) the Authority is found to have made a representation or warrant that was untrue in any material respect upon execution of the agreement, (4) an event of taxability occurs, or (5) the Authority declares bankruptcy or otherwise enters proceedings which impair its ability to continue operations. Upon the happening and continuance of any event of default, the lessor may declare all rental payments immediately due and payable, repossess any or all of the equipment acquired through the agreement, or take any other remedy available by law.

In addition to the provisions above, the capital lease agreement contains the following additional requirements: (1) the Authority may not take on any additional lien or encumbrance against the financed equipment, (2) the Authority must adhere to terms, conditions, and covenants made in other trust agreements, (3) the Authority must maintain a debt-to-capitalization ratio that is less than 0.6:1. The Authority is also required to maintain certain levels of insurance on the financed equipment through the duration of the agreement.

F. **Bond Defeasance** - The Authority has extinguished long-term debt obligations by the issuance of new long-term debt instruments as follows:

On February 4, 2020, the Authority issued $21,755,000 in Port Facilities Senior Lien Revenue Refunding Bonds, Series 2020A with an interest rate of 2.69%. The bonds were issued to advance refund $23,690,000 of outstanding 2010 Port Facilities Revenue Bond, Senior Lien bonds with an average interest rate of 5.25%. These funds were deposited into an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Authority's Statement of Net Position.

On February 4, 2020, the Authority issued $10,670,000 in Port Facilities Senior Lien Revenue Refunding Bonds, Series 2020B with an interest rate of 2.49%. The bonds were issued to advance refund $11,620,000 of outstanding 2010 Port Facilities Revenue Bond, Senior Lien bonds with an average interest rate of 5%. These funds were deposited into an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Authority's Statement of Net Position.

These advance refundings were undertaken to reduce total debt service payments by an average of $771,000 annually over the next 20 years.

NOTE 9 - CAPITAL LEASE OBLIGATIONS

Capital lease obligations relating to container cranes are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2020:

Fiscal Year	Amount
2021	$ 4,839,554
2022	4,839,554
2023	4,839,554
2024	4,839,554
2025	4,839,554
2026-2030	24,197,772
2031-2033	14,518,662
Total Minimum Lease Payments	62,914,204
Amount Representing Interest (2.259% Rate of Interest)	8,659,502
Present Value of Future Lease Payments	$ 54,254,702

Machinery and equipment acquired under capital lease amounted to $69,269,748 at June 30, 2020.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled $12,294,892 at June 30, 2020.

NOTE 10 - NET POSITION

Unrestricted net position has been significantly affected by transactions resulting from the recognition of deferred outflows of resources, deferred inflows of resources, and related long-term liabilities, as shown in the following table:

	Amount
Net Pension Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources	$ (4,375,957)
Net OPEB Liability (Retiree Health Benefit Fund) and Related Deferred Outflows of Resources and Deferred Inflows of Resources	(24,455,081)
Effect on Unrestricted Net Position	(28,831,038)
Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities	55,172,247
Total Unrestricted Net Position	$ 26,341,209

See Notes 12 and 13 for detailed information regarding the amortization of the deferred outflows of resources and deferred inflows of resources relating to pensions and OPEB, respectively.

NOTE 11 - FUTURE RENTAL REVENUES

The Authority leases certain land and facilities to others. These leases are accounted for as operating leases; revenues are recorded when earned on the leased facilities. Future minimum revenues under noncancelable agreements treated as operating leases consist of the following at June 30, 2020:

Fiscal Year	Amount
2021	$ 3,992,743
2022	3,971,527
2023	3,308,897
2024	2,686,686
2025	2,380,543
Total Future Rental Revenues	$ 16,340,396

NOTE 12 - PENSION PLANS

A. Defined Benefit Plan

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools that elect to join the Retirement System. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The Authority's contractually-required contribution rate for the year ended June 30, 2020 was 12.97% of covered payroll. Employee contributions to the pension plan were $884,093, and the Authority's contributions were $1,911,115 for the year ended June 30, 2020.

The TSERS plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2019 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at https://www.osc.nc.gov/ or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

TSERS Basis of Accounting: The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the TSERS plan, and additions to/deductions from the TSERS plan's fiduciary net position have been determined on the same basis as they are reported by TSERS.

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its External Investment Pool. TSERS and other pension plans of the State of North Carolina are the sole participants in the Long-Term Investment, Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Opportunistic Fixed Income Investment, and Inflation Sensitive Investment Portfolios. The Fixed Income Asset Class includes the Long-Term Investment and Fixed Income Investment Portfolios. The Global Equity Asset Class includes the Equity Investment Portfolio. The investment balance of each pension trust fund represents its share of the fair value of the net position of the various portfolios within the External Investment Pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2019 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2020, the Authority reported a liability of $8,304,969 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018, and update procedures were used to roll forward the total pension liability to June 30, 2019. The Authority's proportion of the net pension liability was based on the present value of future salaries for the Authority relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2019, the Authority's proportion was 0.08011%, which was a decrease of 0.00004 from its proportion measured as of June 30, 2018, which was 0.08015%.

Actuarial Assumptions: The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2018
Inflation	3%
Salary Increases*	3.50% - 8.10%
Investment Rate of Return**	7.00%

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return includes inflation assumption and is net of pension plan investment expense.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer), and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2018 valuations were based on the results of an actuarial experience review for the period January 1, 2010 through December 31, 2014.

Future ad hoc cost of living adjustment amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	4.0%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2019 is 1.4%.

Discount Rate: The discount rate used to measure the total pension liability was calculated at 7.00% for the December 31, 2018 valuation. The discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan at June 30, 2019 calculated using the discount rate of 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate:

Net Pension Liability		
1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
$ 15,806,667	$ 8,304,969	$ 2,012,001

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2020, the Authority recognized pension expense of $3,106,089. At June 30, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 694,701	$ 16,626
Changes of Assumptions	884,927	-
Net Difference Between Projected and Actual Earnings on Plan Investments	159,195	-
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	311,889	16,189
Contributions Subsequent to the Measurement Date	1,911,115	-
Total	$ 3,961,827	$ 32,815

The amount reported as deferred outflows of resources related to contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in Pension Expense:

Year Ended June 30:	Amount
2021	$ 1,347,258
2022	438,345
2023	176,602
2024	55,692
Total	$ 2,017,897

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

The Authority participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan's financial information, including all information about the plans' assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2019 *Comprehensive Annual Financial Report.* An electronic version of this report is available on the North Carolina Office of the State Controller's website at https://www.osc.nc.gov/ or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

A. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting: The financial statements of these plans were prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of each plan. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of each plan, and additions to/deductions from each plans' fiduciary net position have been determined on the same basis as they are reported by the plans.

Methods Used to Value Plan Investments: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the other postemployment benefits funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment Pool. The Disability Income Plan of North Carolina is invested in the Short-Term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool. The investment balance of each other employee benefit trust fund represents its share of the fair value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2019 *Comprehensive Annual Financial Report.*

B. Plan Descriptions

1. Health Benefits

Plan Administration: The State of North Carolina administers the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the Plan), a healthcare plan exclusively for the benefit of employees of the State, the University of North Carolina System, community colleges, and certain other component units. In addition, Local Education Agencies (LEAs), charter schools, and some select local governments that are not part of the State's financial reporting entity also participate. Health benefit programs and premium rates are determined by the State Treasurer upon approval of the Plan Board of Trustees.

The Retiree Health Benefit Fund (RHBF) has been established as a fund to provide health benefits to retired and disabled employees and their applicable beneficiaries. RHBF is established by General Statute 135-7, Article 1. RHBF is a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of eligible former employees of the State, the University of North Carolina System, and community colleges. In addition, LEAs, charter schools, and some select local governments that are not part of the State's financial reporting entity also participate.

By statute, RHBF is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System (TSERS). RHBF is supported by a percent of payroll contribution from participating employing units. Each year the percentage is set in legislation, as are the maximum per retiree contributions from RHBF to the Plan. The State Treasurer, with the approval of the Plan Board of Trustees, then sets the employer contributions (subject to the legislative cap) and the premiums to be paid by retirees, as well as the health benefits to be provided through the Plan.

Benefits Provided: Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 14. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan options or the self-funded Traditional 70/30 Preferred Provider Organization plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

Those former employees who are eligible to receive medical benefits from RHBF are long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of TSERS, the Consolidated Judicial Retirement System, the Legislative Retirement System, the Optional Retirement Program (ORP), and a small number of local governments, with five or more years of contributory membership service in their retirement system prior to disability or retirement, with the following exceptions: for employees first hired on or after October 1, 2006, and members of the North Carolina General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the North Carolina General Assembly is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on or after October 1, 2006 and members of the North Carolina General

Assembly first taking office on or after February 1, 2007 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total noncontributory premium.

The Plan's and RHBF's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3B of the General Statutes and may be amended only by the North Carolina General Assembly. RHBF does not provide for automatic post-retirement benefit increases.

Contributions: Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the North Carolina General Assembly in the Appropriations Bill. The Authority's contractually-required contribution rate for the year ended June 30, 2020 was 6.47% of covered payroll. The Authority's contributions to the RHBF were $953,347 for the year ended June 30, 2020.

2. Disability Income

Plan Administration: As discussed in Note 14, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer, defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina System, community colleges, certain participating component units, LEAs which are not part of the reporting entity, and the ORP. By statute, DIPNC is administered by the Department of State Treasurer and the Board of Trustees of TSERS.

Benefits Provided: Long-term disability benefits are payable as an OPEB from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in TSERS or the ORP, earned within 96 months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from TSERS; and (6) the employee must terminate employment as a permanent, full-time employee. An employee is eligible to receive an unreduced retirement benefit from TSERS after (1) reaching the age of 65 and completing five years of membership service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

For employees who had five or more years of membership service as of July 31, 2007, during the first 36 months of the long-term disability period, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one-twelfth of the annual longevity payment and local supplements to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of $3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled, but the benefits payable shall be no less than $10 a month. After the first 36 months of the long-term disability, the long-term benefit is calculated in the same manner as described above except the monthly benefit is reduced by an amount equal to a monthly primary Social Security disability benefit to which the participant or beneficiary might be entitled had Social Security disability benefits been awarded. When an employee qualifies for an unreduced service retirement allowance from TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under TSERS or the ORP.

For employees who had less than five years of membership service as of July 31, 2007, and meet the requirements for long-term disability on or after August 1, 2007, during the first 36 months of the long-term disability period, the monthly long-term benefit shall be reduced by an amount equal to the monthly primary Social Security retirement benefit to which the employee might be entitled should the employee become age 62 during the first 36 months. This reduction becomes effective as of the first day of the month following the month of initial entitlement to Social Security benefits. After the first 36 months of the long-term disability, no further benefits are payable under the terms of this section unless the employee has been approved and is in receipt of primary Social Security disability benefits.

Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the North Carolina General Assembly and coincide with the State's fiscal year. The Authority's contractually-required contribution rate for the year ended June 30, 2020 was 0.10% of covered payroll. The Authority's contributions to DIPNC were $14,735 for the year ended June 30, 2020.

C. Net OPEB Liability (Asset)

Net OPEB Liability: At June 30, 2020, the Authority reported a liability of $21,004,451 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2019. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2018, and update procedures were used to roll forward the total OPEB liability to June 30, 2019. The Authority's proportion of the net OPEB liability was based on the present value of future salaries for the Authority relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2019, the Authority's proportion was 0.06639%, which was an increase of 0.0013 from its proportion measured as of June 30, 2018, which was 0.06509%.

Net OPEB Asset: At June 30, 2020, the Authority reported an asset of $29,821 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2019. The total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2018, and update procedures were used to roll forward the total OPEB liability to June 30, 2019. The Authority's proportion of the net OPEB asset was based on the present value of future salaries for the Authority relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2019, the Authority's proportion was 0.06911%, which was an increase of 0.00001 from its proportion measured as of June 30, 2018, which was 0.06910%.

Actuarial Assumptions: The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities were then rolled forward to June 30, 2019 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N. C.
Valuation Date	12/31/2018	12/31/2018
Inflation	3.00%	3.00%
Salary Increases*	3.50% - 8.10%	3.50% - 8.10%
Investment Rate of Return**	7.00%	3.75%
Healthcare Cost Trend Rate - Medical	6.50% grading down to 5.00% by 2024	6.50% grading down to 5.00% by 2024
Healthcare Cost Trend Rate - Prescription Drug	9.50% grading down to 5.00% by 2028	9.50% grading down to 5.00% by 2028
Healthcare Cost Trend Rate - Medicare Advantage	6.50% grading down to 5.00% by 2024	N/A
Healthcare Cost Trend Rate - Administrative	3.00%	N/A

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return is net of pension plan investment expense, including inflation.
N/A - Not Applicable

The OPEB plans currently use mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The projected long-term investment returns and inflation assumptions are developed through a review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projects are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2019.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2019 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	4.0%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2019 is 1.4%.

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The actuarial assumptions used for RHBF are consistent with those used to value the pension benefits of TSERS where appropriate. These assumptions are based on the most recent pension valuations available. The discount rate used for RHBF reflects a pay-as-you-go approach.

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the employer and plan members to that point. Historically, the benefits funded solely by employer contributions applied equally to all retirees. Currently, as described earlier in the note, benefits are dependent on membership requirements.

The actuarial methods and assumptions used for DIPNC include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions used in the December 31, 2018 valuations were generally based on the results of an actuarial experience study prepared as of December 31, 2014, as amended for updates to certain assumptions (such as the long-term investment return, medical claims, and medical trend rate assumptions) implemented based on annual reviews that have occurred since that experience study.

Discount Rate: The discount rate used to measure the total OPEB liability for RHBF was 3.50%. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 3.50% was used as the discount rate used to measure the total OPEB liability. The 3.50% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2019.

The discount rate used to measure the total OPEB liability for DIPNC was 3.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate: The following presents the Authority's proportionate share of the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate:

	Net OPEB Liability (Asset)		
	1% Decrease (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)
RHBF	$ 24,962,086	$ 21,004,451	$ 17,837,377
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	$ (25,258)	$ (29,821)	$ (34,255)

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rates: The following presents the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates:

Net OPEB Liability (Asset)

	1% Decrease (Medical - 4.00% - 5.50%, Pharmacy - 4.00% - 8.50%, Med. Advantage - 4.00% - 5.50%, Administrative - 2.00%)	Current Healthcare Cost Trend Rates (Medical - 5.00% - 6.50%, Pharmacy - 5.00% - 9.50%, Med. Advantage - 5.00% - 6.50%, Administrative - 3.00%)	1% Increase (Medical - 6.00% - 7.50%, Pharmacy - 6.00% - 10.50%, Med. Advantage - 6.00% - 7.50%, Administrative - 4.00%)
RHBF	$ 17,296,411	$ 21,004,451	$ 25,882,288

	1% Decrease (Medical - 4.00% - 5.50%, Pharmacy - 4.00% - 8.50%)	Current Healthcare Cost Trend Rates (Medical - 5.00% - 6.50%, Pharmacy - 5.00% - 9.50%)	1% Increase (Medical - 6.00% - 7.50%, Pharmacy - 6.00% - 10.50%)
DIPNC	$ (29,873)	$ (29,821)	$ (29,772)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended June 30, 2020, the Authority recognized OPEB expense of $169,452 for RHBF and expense of $31,168 for DIPNC, resulting in a total OPEB expense of $200,620. At June 30, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Employer Balances of Deferred Outflows of Resources Related to OPEB by Classification:

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ -	$ 30,464	$ 30,464
Changes of Assumptions	1,009,573	3,303	1,012,876
Net Difference Between Projected and Actual Earnings on Plan Investments	13,987	5,680	19,667
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	1,946,211	4,311	1,950,522
Contributions Subsequent to the Measurement Date	953,347	14,735	968,082
Total	$ 3,923,118	$ 58,493	$ 3,981,611

Employer Balances of Deferred Inflows of Resources
Related to OPEB by Classification:

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 1,058,889	$ -	$ 1,058,889
Changes of Assumptions	6,314,859	3,059	6,317,918
Net Difference Between Projected and Actual Earnings on Plan Investments	-	2,536	2,536
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	-	-	-
Total	$ 7,373,748	$ 5,595	$ 7,379,343

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Schedule of the Net Amount of the Employer's Balances of
Deferred Outflows of Resources and Deferred Inflows of
Resources That will be Recognized in OPEB Expense:

Year Ended June 30:	RHBF	DIPNC
2021	$ (1,532,433)	$ 14,969
2022	(1,532,433)	8,249
2023	(1,530,411)	5,937
2024	(102,313)	3,586
2025	293,613	5,083
Thereafter	-	339
Total	$ (4,403,977)	$ 38,163

NOTE 14 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in state-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

A. Employee Benefit Plans

1. State Health Plan

Authority employees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan is funded by employer contributions. Certain plans also require contributions from employees. The Plan has contracted with third parties to process claims. See Note 13, Other Postemployment Benefits, for additional information regarding retiree health benefits.

2. Death Benefit Plan of North Carolina

Term life insurance (death benefits) of $25,000 to $50,000 is provided to eligible workers who enroll in the Teachers' and State Employees' Retirement System. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was 0.16% for the current fiscal year.

3. Disability Income Plan

Short-term and long-term disability benefits are provided to Authority employees through the Disability Income Plan of North Carolina (DIPNC), part of the State's Pension and Other Employee Benefit Trust Funds. Short-term benefits are paid by the Authority up to the first six months of benefits and reimbursed by DIPNC for any additional short-term benefits. As discussed in Note 13, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

The Authority is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the Authority for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a $5,000 per occurrence deductible. However, in order to reduce its premiums, the Authority has established higher deductibles for losses associated with buildings, equipment, and supporting infrastructure of $100,000.

All state-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina

Department of Insurance. The liability limits for losses are $1,000,000 per claim and $10,000,000 per occurrence. The Authority pays premiums to the North Carolina Department of Insurance for the coverage.

2. Public Officers' and Employees' Liability Insurance

The risk of tort claims of up to $1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $2,000,000 per claim and $10,000,000 in the aggregate per fiscal year via contract with a private insurance company. The Authority pays the premium, based on a composite rate, directly to the private insurer.

3. Employee Dishonesty and Computer Fraud

The Authority is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. The Authority is charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $100,000 deductible.

4. Statewide Workers' Compensation Program

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State and its component units are included in the program. When an employee is injured, the Authority's primary responsibility is to arrange for and provide the necessary treatment for work related injury. The Authority is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The Authority retains the risk for workers' compensation.

Additional details on the state-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

5. Other Insurance Held by the Authority

The Authority purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. The Authority carries terminal operator's legal liability coverage from a private insurer at a premium of 0.265% for every dollar of operating revenue, not including rental and lease earnings.

The Authority also purchased additional flood and business interruption coverage under the all-risks policy from the State Property Fire Insurance Fund. This policy reimburses the Authority for lost revenues and extra expenses resulting from certain covered events that disrupt Authority operations for a minimum of 72 hours. The Authority also purchased cyber risk coverage through a private insurer. This policy has a $25,000 deductible and coverage limits range from $250,000 to $1,000,000 depending on the nature of the event.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The Authority has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were $27,934,033 at June 30, 2020.

B. Pending Litigation and Claims - The Authority is a party to litigation and claims in the ordinary course of its operations. It is not possible to predict the ultimate outcome of these matters, however during the year ended June 30, 2020, the Authority accrued a liability in the financial statements to offset potential future settlements. Authority management is of the opinion that the liability for any of these matters will not have a material adverse effect on the financial position of the Authority.

NOTE 16 - THE CORONAVIRUS PANDEMIC EMERGENCY

In response to the coronavirus pandemic emergency, actions were taken by the Authority in March 2020 to reduce the spread of the coronavirus disease (COVID-19) and to provide for the health and safety of employees.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law. The CARES Act included various relief and recovery aid programs to address COVID-19 expenses and the costs incurred and revenue lost due to the actions taken to reduce the spread of COVID-19. For the Authority, these programs included the Coronavirus Relief Fund (CRF) administered by the U.S. Department of Treasury and made available directly to state and local governments.

Nonoperating Revenue:

State Aid - Coronavirus Relief Fund - This caption includes funds received from the CARES Act - CRF that were appropriated by the State of North Carolina in House Bill 1043 to the Authority to cover COVID-19 expenses. The Authority received $20,910 for a portion of qualified expenses incurred prior to June 30, 2020.

NOTE 17 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2020, the Authority implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 89, Accounting for Interest Costs Incurred before the End of a Construction Period

GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance

GASB Statement No. 89 establishes accounting requirements for interest costs incurred before the end of a construction period. Interest costs incurred before the end of a construction period are to be recognized as an expense in the period in which the costs are incurred for financial statements prepared using the economic resources measurement focus. Interest costs incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity. The requirements of this Statement have been applied prospectively.

GASB Statement No. 95 provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018.

REQUIRED SUPPLEMENTARY INFORMATION

North Carolina State Ports Authority
Required Supplementary Information
Schedule of the Proportionate Share of the Net Pension Liability
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
*Last Seven Fiscal Years**

Exhibit B-1

Teachers' and State Employees' Retirement System	**2020**	**2019**	**2018**	**2017**
Proportionate Share Percentage of Collective Net Pension Liability	0.08011%	0.08015%	0.07351%	0.07858%
Proportionate Share of TSERS Collective Net Pension Liability	$ 8,304,969	$ 7,979,805	$ 5,832,608	$ 7,222,314
Covered Payroll	$ 13,258,581	$ 12,584,767	$ 12,494,622	$ 12,323,603
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	62.64%	63.41%	46.68%	58.61%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.56%	87.61%	89.51%	87.32%

	2016	**2015**	**2014**
Proportionate Share Percentage of Collective Net Pension Liability	0.08158%	0.08220%	0.08138%
Proportionate Share of TSERS Collective Net Pension Liability	$ 3,006,491	$ 963,753	$ 4,940,641
Covered Payroll	$ 12,170,751	$ 11,773,267	$ 12,205,518
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	24.70%	8.19%	40.48%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.64%	98.24%	90.60%

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* , as amended.

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

North Carolina State Ports Authority
Required Supplementary Information
Schedule of Authority Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
Last Ten Fiscal Years ***Exhibit B-2***

Teachers' and State Employees' Retirement System	**2020**	**2019**	**2018**	**2017**	**2016**
Contractually Required Contribution	$ 1,911,115	$ 1,629,480	$ 1,356,638	$ 1,246,963	$ 1,127,510
Contributions in Relation to the Contractually Determined Contribution	1,911,115	1,629,480	1,356,638	1,246,963	1,127,510
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 14,734,885	$ 13,258,581	$ 12,584,767	$ 12,494,622	$ 12,323,603
Contributions as a Percentage of Covered Payroll	12.97%	12.29%	10.78%	9.98%	9.15%

	2015	**2014**	**2013**	**2012**	**2011**
Contractually Required Contribution	$ 1,113,624	$ 1,023,097	$ 1,016,720	$ 952,502	$ 630,554
Contributions in Relation to the Contractually Determined Contribution	1,113,624	1,023,097	1,016,720	952,502	630,554
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 12,170,751	$ 11,773,267	$ 12,205,518	$ 12,802,452	$ 12,790,136
Contributions as a Percentage of Covered Payroll	9.15%	8.69%	8.33%	7.44%	4.93%

Note: Changes in benefit terms, methods, and assumptions are presented in the Notes to Required Supplementary Information (RSI) schedule following the pension RSI tables.

North Carolina State Ports Authority
Notes to Required Supplementary Information
Schedule of Authority Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
For the Fiscal Year Ended June 30, 2020

Changes of Benefit Terms:

Cost of Living Increase										
Teachers' and State Employees'	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
Retirement System	N/A	1.00%	N/A	N/A	N/A	1.00%	N/A	N/A	N/A	2.20%

Changes of Assumptions: In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement system's actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent Experience Review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Board of Trustees of the Teachers' and State Employees' Retirement System adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were reduced to more closely reflect actual experience. The discount rate for the Teachers' and State Employees' Retirement System was lowered from 7.25% to 7.20% for the December 31, 2016 valuation. For the December 31, 2017 valuation, the discount rate was lowered to 7.00%.

The Boards of Trustees also adopted a new asset valuation method for the Teachers' and State Employees' Retirement System. For determining plan funding requirements, the plan now uses a five-year smoothing method with a reset of the actuarial value of assets to market value as of December 31, 2014.

The Notes to Required Supplementary Information reflect the most recent available information included in the State of North Carolina's 2019 *Comprehensive Annual Financial Report* .

N/A - Not Applicable

North Carolina State Ports Authority
Required Supplementary Information
Schedule of the Proportionate Share of the Net OPEB Liability or Asset
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
*Last Four Fiscal Years**

Exhibit B-3

Retiree Health Benefit Fund	**2020**	**2019**	**2018**	**2017**
Proportionate Share Percentage of Collective Net OPEB Liability	0.06639%	0.06509%	0.06138%	0.06059%
Proportionate Share of Collective Net OPEB Liability	$ 21,004,451	$ 18,542,674	$ 20,123,893	$ 26,358,709
Covered Payroll	$ 13,258,581	$ 12,584,767	$ 12,494,622	$ 12,323,603
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	158.42%	147.34%	161.06%	213.89%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	4.40%	4.40%	3.52%	2.41%
Disability Income Plan of North Carolina				
Proportionate Share Percentage of Collective Net OPEB Asset	0.06911%	0.06910%	0.06361%	0.06872%
Proportionate Share of Collective Net OPEB Asset	$ 29,821	$ 20,990	$ 38,878	$ 42,675
Covered Payroll	$ 13,258,581	$ 12,584,767	$ 12,494,622	$ 12,323,603
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.22%	0.17%	0.31%	0.35%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	113.00%	108.47%	116.23%	116.06%

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* , as amended.

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

North Carolina State Ports Authority
Required Supplementary Information
Schedule of Authority Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years

Exhibit B-4

Retiree Health Benefit Fund	**2020**	**2019**	**2018**	**2017**	**2016**
Contractually Required Contribution	$ 953,347	$ 831,313	$ 761,378	$ 725,938	$ 690,122
Contributions in Relation to the Contractually Determined Contribution	953,347	831,313	761,378	725,938	690,122
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 14,734,885	$ 13,258,581	$ 12,584,767	$ 12,494,622	$ 12,323,603
Contributions as a Percentage of Covered Payroll	6.47%	6.27%	6.05%	5.81%	5.60%

	2015	**2014**	**2013**	**2012**	**2011**
Contractually Required Contribution	$ 668,174	$ 635,756	$ 646,892	$ 640,123	$ 626,717
Contributions in Relation to the Contractually Determined Contribution	668,174	635,756	646,892	640,123	626,717
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 12,170,751	$ 11,773,267	$ 12,205,518	$ 12,802,452	$ 12,790,136
Contributions as a Percentage of Covered Payroll	5.49%	5.40%	5.30%	5.00%	4.90%

Disability Income Plan of North Carolina	**2020**	**2019**	**2018**	**2017**	**2016**
Contractually Required Contribution	$ 14,735	$ 18,562	$ 17,619	$ 47,480	$ 50,527
Contributions in Relation to the Contractually Determined Contribution	14,735	18,562	17,619	47,480	50,527
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 14,734,885	$ 13,258,851	$ 12,584,767	$ 12,494,622	$ 12,323,603
Contributions as a Percentage of Covered Payroll	0.10%	0.14%	0.14%	0.38%	0.41%

	2015	**2014**	**2013**	**2012**	**2011**
Contractually Required Contribution	$ 49,900	$ 51,802	$ 53,704	$ 66,573	$ 66,509
Contributions in Relation to the Contractually Determined Contribution	49,900	51,802	53,704	66,573	66,509
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 12,170,751	$ 11,773,267	$ 12,205,518	$ 12,802,452	$ 12,790,136
Contributions as a Percentage of Covered Payroll	0.41%	0.44%	0.44%	0.52%	0.52%

Note: Changes in benefit terms, methods, and assumptions are presented in the Notes to Required Supplementary Information (RSI) schedule following the OPEB RSI tables.

North Carolina State Ports Authority
Notes to Required Supplementary Information
Schedule of Authority Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
For the Fiscal Year Ended June 30, 2020

Changes of Benefit Terms: Effective January 1, 2016, benefit terms related to copays, out-of-pocket maximums, and deductibles were changed for three of four options of the Retiree Health Benefit Fund (RHBF). Most of the changes were an increase in the amount from the previous year.

Effective January 1, 2017, benefit terms related to copays, coinsurance maximums, out-of-pocket maximums, and deductibles were changed for two of four options of the RHBF. Most of the changes were an increase in the amount from the previous year.

Effective January 1, 2019, benefit terms related to copays, out-of-pockets maximums, and deductibles were changes for one of four options of the RHBF. Out of pocket maximums increased while certain specialist copays decreased related to option benefits.

Additionally, the December 31, 2017 Disability Income Plan of North Carolina (DIPNC) actuarial valuation includes a liability for the State's potential reimbursement of health insurance premiums paid by employers during the second six months of the short-term disability benefit period.

Method and Assumptions Used in Calculations of Actuarially Determined Contributions: An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of Authority Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning six months following the date of the valuation results for the RHBF. The actuarially determined contribution rates in the Schedule of Authority Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results for the DIPNC. See Note 13 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

Changes of Assumptions: In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement system's actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent experience review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Boards of Trustees of the Teachers' and State Employees' Retirement System and the State Health Plan adopted a number of new actuarial assumptions and methods for the RHBF and the DIPNC. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement and rates of termination from active employment were reduced to more closely reflect actual experience.

For the actuarial valuation measured as of June 30, 2019, the discount rate for the RHBF was updated to 3.5%. Disability rates were adjusted to the non-grandfathered assumptions used in the Teachers' and State Employees' Retirement System actuarial valuation to better align with the anticipated incidence of disability. Medical and prescription drug claims were changed based on most recent experience, and medical and prescription drug trend rates were changed to the current schedule. Enrollment assumptions were updated to model expected migrations among RHBF plan options over the next four year. For the DIPNC actuarial valuation as of December 31, 2018, for individuals who may become disabled in the future, the Social Security disability income benefit (which is an offset for the DIPNC benefit) was updated to be based on assumed Social Security calculation parameters in the year of disability.

The Notes to Required Supplementary Information reflect the most recent available information included in the State of North Carolina's 2019 *Comprehensive Annual Financial Report*.

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
North Carolina State Ports Authority
Wilmington, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the North Carolina State Ports Authority (Authority), a component unit of the State of North Carolina, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 8, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

October 8, 2020

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NCOSA
The Taxpayers' Watchdog

This audit required 545 hours at an approximate cost of $56,680.